



**U.S. Department of the Interior  
Office of Inspector General**

# **AUDIT REPORT**

**ASSESSMENT AND COLLECTION OF  
GROSS RECEIPTS TAXES,  
DEPARTMENT OF REVENUE  
AND TAXATION,  
GOVERNMENT OF GUAM**

**REPORT NO. 98-I-570  
JULY 1998**



# United States Department of the Interior

OFFICE OF INSPECTOR GENERAL  
Washington, D.C. 20240

N-IN-GUA-003-97

**JUL 17 1998**

Honorable Carl T.C. Gutierrez  
Governor of Guam  
Office of the Governor  
Agana, Guam 96910

Subject: Audit Report on Assessment and Collection of Gross Receipts Taxes, Department of Revenue and Taxation, Government of Guam (No. 98-I-570)

Dear Governor Gutierrez:

This report presents the results of our review of gross receipts taxes at the Department of Revenue and Taxation during fiscal years 1995, 1996, and 1997 (through December 31, 1996). The objective of our audit was to determine whether the Government of Guam effectively assessed and collected the gross receipts taxes applicable under Guam laws and regulations.

Our audit disclosed that the Department of Revenue and Taxation did not ensure that all delinquent gross receipts taxes were collected and did not use available sources of information to identify businesses (taxpayers) that had not filed gross receipts tax returns. These conditions occurred because the Department (1) had transferred Collection Branch personnel to other divisions, which prevented the Collection Branch from initiating timely enforcement actions to collect delinquent gross receipts taxes; (2) had not developed written procedures for conducting an effective nonfiler identification program; (3) had not assigned a program coordinator and personnel to conduct nonfiler identification programs; and (4) had not entered income tax information into the Department's automated income tax system to provide a method for comparing income reported on income tax returns with income shown on gross receipts tax returns. As a result, the Government of Guam lost gross receipts taxes of \$724,149 and risks losing additional taxes of at least \$1.3 million if timely enforcement actions are not taken. In addition, based on our limited testing of taxpayer information sources on Guam, we identified 47 nonfilers who may have owed the Government of Guam at least \$972,486 in gross receipts taxes and related penalties and interest.

To correct these conditions, we recommended that you, as the Governor of Guam, require the Director, Department of Revenue and Taxation, to (1) use all available enforcement methods to collect delinquent gross receipts taxes, including seizures and sales of taxpayer property; (2) consider returning the previously transferred personnel to the Collection Branch; and (3) develop and implement a written plan and assign a program coordinator and personnel to conduct nonfiler identification programs.

On April 8, 1998, we discussed the preliminary draft of this report with the Department's Director, the Tax Enforcement Administrator, and the Taxpayer Services Administrator, all of whom expressed agreement with the findings and recommendations. In addition, the Director stated that our report provided him "useful information" that he planned to use as support for obtaining additional resources needed by the Department to carry out its tax collection and enforcement activities.

On April 29, 1998, we transmitted a draft of this report to you, requesting your comments by June 19, 1998. The June 22, 1998, response (Appendix 2) from the Acting Governor indicated concurrence with all five of the recommendations. Based on the response, we consider one recommendation resolved and implemented and one recommendations resolved but not implemented, and we request additional information for three recommendations (see Appendix 3).

The Inspector General Act, Public Law 95-452, Section 5(a)(3), as amended, requires semiannual reporting to the U.S. Congress on all audit reports issued, the monetary impact of audit findings (Appendix 1), actions taken to implement audit recommendations, and identification of each significant recommendation on which corrective action has not been taken.

In view of the above, please provide a response, as required by Public Law 97-357, to this report by August 18, 1998. The response should be addressed to our Pacific Office, 415 Chalan San Antonio, Baltej Pavilion, Suite 306, Tamuning, Guam 96911. The response should provide the information requested in Appendix 3.

We appreciate the assistance of the staff of the Department of Revenue and Taxation in the conduct of our audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Richard N. Reback", written in a cursive style.

Richard N. Reback  
Acting Inspector General

cc: Director, Department of Revenue and Taxation  
Acting Director, Bureau of Budget and Management Research

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# **INTRODUCTION**

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## **BACKGROUND**

The Department of Revenue and Taxation is responsible for enforcing all Guam tax laws, including the gross receipts tax law. Title 11, Chapter 26, of the Guam Code Annotated provides the authority for imposing gross receipts taxes, and Section 26202(a) of Chapter 26 states that businesses (referred to in this report as taxpayers) selling goods and services will be taxed at a rate of 4 percent on the gross proceeds of sales. The Director of Revenue and Taxation is appointed by the Governor of Guam and confirmed by the Guam Legislature and is responsible for managing the operations of the Department of Revenue and Taxation.

The Department of Revenue and Taxation has three branches that are responsible for administering Guam's gross receipts tax law: the Business Privilege Tax Branch and the Accounting Branch, which are under the Taxpayer Service Division, and the Collection Branch, which is under the Tax Enforcement Division. The Business Privilege Tax Branch is responsible for receiving, processing, and verifying the accuracy of information on Monthly Gross Receipts Tax Returns. The Accounting Branch is responsible for processing payments of gross receipts taxes and assessing any gross receipts taxes that may be due the Government of Guam. The Collection Branch is responsible for initiating collection actions to collect any unpaid or past-due gross receipts taxes. During fiscal year 1997, the Business Privilege Tax Branch (9 positions), the Accounting Branch (10 positions), and the Collection Branch (38 positions) were authorized a total of 57 full-time positions.

Revenue and Taxation's records indicated that during fiscal years 1995, 1996, and 1997 (through December 31, 1996), the Business Privilege Tax Branch processed 448,288 gross receipts tax returns with taxes totaling \$389 million. During fiscal year 1996, gross receipts tax revenues totaled \$180 million, which is about 34 percent of the Government of Guam's total General Fund revenues. Gross receipts taxes receivable increased from \$6.7 million at the end of fiscal year 1994 to \$14.9 million at the end of fiscal year 1996.

## **OBJECTIVE AND SCOPE**

The audit objective was to determine whether the Government of Guam effectively assessed and collected the gross receipts taxes applicable under Guam laws and regulations. The scope of the audit covered Revenue and Taxation's assessment and collection of gross receipts taxes that occurred during fiscal years 1995, 1996, and 1997 (through December 31, 1996). However, by letter of April 1, 1997, the Inspector General amended the scope of the audit to include a review of income tax returns and any other records that were necessary to complete the audit of gross receipts taxes.

Our audit was conducted at Revenue and Taxation's offices from January to September 1997. In addition, we obtained information relating to gross receipts taxes from officials at the

Department of Administration, the Guam Housing and Urban Renewal Authority, the Guam Legislature, and the Guam Finance Commission. In addition, we visited officials of the Contracting Services Office at Andersen Air Force Base on Guam to obtain information related to payments made to contractors that perform work for the military.

The audit was made, as applicable, in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures that were considered necessary under the circumstances.

As part of the audit, we evaluated the system of internal controls relating to processing gross receipts tax returns, assessing and collecting gross receipts taxes, maintaining taxpayer case files, and operating nonfiler identification programs to the extent that we considered necessary to accomplish our audit objective. We found that the Department had adequately assessed gross receipts tax returns filed by taxpayers. However, significant internal control weaknesses were identified in the areas of collecting gross receipts taxes, maintaining taxpayer case files, and conducting a nonfiler identification program. These weaknesses are discussed in the Findings and Recommendations section of this report. Our recommendations, if implemented, should improve the internal controls in these areas.

## **PRIOR AUDIT COVERAGE**

During the past 5 years, neither the General Accounting Office nor the Office of Inspector General had audited the Government of Guam's assessment and collection of gross receipts taxes. However, on May 2, 1989, the Office of Inspector General issued the report "Gross Receipts Tax Billing and Collection Practices, Department of Revenue and Taxation, Government of Guam" (No. 89-70). The report noted deficiencies in tax operations that resulted in (1) the loss of \$118,000 because the 3-year statute of limitation had expired on various tax cases and (2) the risk of loss of \$628,000 in unbilled and undocumented taxes and \$3 million in uncollected delinquent taxes.

In addition, an independent public accounting firm issued single audit reports on the Department of Revenue and Taxation's operations for each of fiscal years 1994, 1995, and 1996. These reports showed that (1) account balances were not reconciled at Revenue and Taxation and at the Department of Administration for checks which were returned by banks for insufficient funds, (2) about 85 percent of receivables for these checks were more than 120 days past due, (3) the allowance for doubtful accounts could not be verified, and (4) abatements of taxes receivable were generally not reported to the Department of Administration.

## **FINDINGS AND RECOMMENDATIONS**

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### **A. COLLECTION OF GROSS RECEIPTS TAXES**

The Department of Revenue and Taxation did not ensure that delinquent gross receipts taxes were collected or collected in a timely manner. Title 11, Chapters 15 and 26, of the Guam Code Annotated provides time frames for initiating enforcement actions to collect delinquent gross receipts taxes. However, Collection Branch personnel said that they were not always able to initiate enforcement actions in a timely manner because the Collection Branch did not have a sufficient number of revenue officers to manage the delinquent taxpayer caseload. As a result, during fiscal years 1995, 1996, and 1997 (through December 31, 1996), the Government of Guam lost gross receipts tax revenues of at least \$724,149 and may be at risk of losing another \$1.3 million of delinquent gross receipts taxes if timely enforcement actions are not taken.

#### **Enforcement Practices**

Title 11, Chapter 15, Section 15101(a), of the Guam Code Annotated states that "in all cases of unpaid gross receipts taxes, demand for payment shall be made in writing within thirty (30) days of filing unpaid gross receipts tax returns, and liens and levies shall be filed on such unpaid amounts not later than sixty (60) days of filing unpaid gross receipts tax returns." Also, Section 15102(a) states, "Repayment may be made over a period of sixty (60) months or less." However, Section 15102(d) states, "Upon default of the delinquent taxpayer in all or all [sic] of the agreement terms and conditions, the entire amount owed shall be immediately due and payable, and collection procedures shall be immediately instituted against the defaulting taxpayer's property or properties unless the Director of Revenue and Taxation, on his discretion, finds that the default was excusable, and the taxpayer promptly (within 30 days) cures the default." In addition, Title 11, Chapter 26, Section 26205, of the Guam Code Annotated states, "The statute of limitations for collections of unpaid taxes due on gross receipts tax returns shall be seven (7) years after the return is filed." Finally, Chapter 15, Section 15101(b), "Collection of Delinquent Taxes," states, "Nothing herein shall affect the power of the Department of Revenue and Taxation to levy, seize and sell property at public auction." However, we found that Revenue and Taxation did not always comply with these requirements.

Based on Revenue and Taxation's December 31, 1996, Collection Branch Monthly Activity Report, the Collection Branch had an outstanding inventory of 5,206 demand for payment notices that had been issued to 1,415 delinquent taxpayers who owed gross receipts taxes totaling \$14.9 million. Of the 1,415 taxpayer case files, we selected a judgmental sample of 129 taxpayer case files, which contained 1,007 payment notices totaling about \$3.3 million, to determine whether Revenue and Taxation had complied with statutory requirements for collecting the delinquent taxes. Of the 129 delinquent taxpayer case files selected for review, Revenue and Taxation was not able either to locate case files or to produce complete case

files for 35 taxpayers who owed taxes of \$145,465. Therefore, based on our review of the 94 available case files, we found that Revenue and Taxation generally issued notices to delinquent taxpayers within the 30-day period prescribed by the Guam Code and had followed statutory requirements for collecting delinquent taxes from 30 taxpayers who owed taxes of \$1.2 million. However, Revenue and Taxation (1) did not comply with statutory requirements for using liens and levies and enforcing payment agreements against 54 delinquent taxpayers who owed taxes of \$1.3 million and (2) did not use available enforcement actions to collect delinquent taxes from 10 other taxpayers, which resulted in the loss of gross receipts taxes of \$724,149.

Of the 54 delinquent taxpayers that had a total of \$1.3 million of past-due taxes, we determined that Revenue and Taxation had not filed any liens and/or levies against the property of 20 taxpayers that owed taxes of \$219,882 and had not filed liens and/or levies timely against the property of 24 taxpayers that owed taxes of \$694,182. Furthermore, we found that for five taxpayers that owed delinquent taxes of \$179,679, Revenue and Taxation had not initiated followup collection actions subsequent to filing liens and/or levies against the taxpayers' property to ensure that the Government of Guam's interests in the delinquent gross receipts taxes were protected. As a result, Revenue and Taxation had not collected delinquent taxes of \$1.1 million from these 49 taxpayers.

We also found that Revenue and Taxation did not follow statutory requirements when enforcing payment agreements with five delinquent taxpayers who owed \$234,134. In one instance, we determined that Revenue and Taxation had entered into a payment agreement with a delinquent taxpayer who owed taxes of \$60,192. However, the payment agreement allowed the taxpayer to extend payments over a 363-month period, which exceeded the 60-month payment period allowed by law. In addition, we found that four taxpayers, who owed taxes of \$173,942, had defaulted on their payment agreements with Revenue and Taxation. However, Revenue and Taxation had not taken any action to seize and sell taxpayer assets to collect the delinquent taxes from these four taxpayers in accordance with Title 11, Chapter 15, Section 15101(b), of the Guam Code.

Based on our review of the remaining 10 delinquent taxpayer case files, we also determined that the Government of Guam lost gross receipts tax revenues of at least \$724,149 because Revenue and Taxation had not used available enforcement actions, such as seizures and sales of property, to collect the delinquent taxes. Specifically, we found that Revenue and Taxation had not collected delinquent taxes of \$40,545 from five taxpayers before expiration of the 7-year statute of limitations. In addition, we determined that the Government of Guam lost delinquent taxes of \$158,940 because three taxpayers declared bankruptcy and Revenue and Taxation had not taken adequate steps, such as securing a claim against the taxpayers' assets, to protect the Government's interests. Finally, we found that Revenue and Taxation had written off delinquent gross receipts taxes of \$524,664 from two taxpayers because one taxpayer had departed Guam and the other taxpayer no longer had any assets to seize.

Based on Revenue and Taxation's budget documents for fiscal year 1997, we determined that the Collection Branch was authorized a staff of 38 employees (35 revenue officers, 2 tax auditors, and 1 support staff). Of the 38 employees, we found that the Collection Branch had



seven vacancies (6 revenue officers and 1 support staff) and that 12 of its 29 revenue officers had been reassigned by a former Director to cover shortages of staff in other Revenue and Taxation divisions. Therefore, during our audit, the Collection Branch had a staff of 19 employees. According to the Administrator of the Tax Enforcement Division, the shortage of staff in the Collection Branch had negatively impacted the ability of the Collection Branch to initiate timely collection actions against delinquent taxpayers. The Administrator also stated that the Collection Branch would be able to reduce the backlog of delinquent taxpayer cases (1,415 taxpayers as of December 31, 1996) if some of the reassigned employees were returned to the Branch and the seven vacancies were filled. Finally, Collection Branch personnel and the Acting Collection Branch Supervisor stated that the insufficient numbers of staff had prevented the Collection Branch from properly managing its delinquent taxpayer caseload.

We also discussed with the Tax Enforcement Administrator the possibility of using seizures and sales of property to collect delinquent gross receipts taxes. The Tax Enforcement Administrator stated that he did not want to use seizures and sales of property because he believed that enforcement tools such as liens and levies were as effective as the use of seizures and sales of property. However, during the exit conference on April 8, 1998, the Tax Enforcement Administrator stated that seizures and sales of property should be used only as a "last resort" to collect delinquent taxes. Nevertheless, we believe that by delaying enforcement actions against delinquent taxpayers, including the use of seizures and sales of property, Revenue and Taxation risks the loss not only of additional gross receipts tax revenues as a result of the expiration of the statute of limitations but also the opportunity to collect tax revenues from taxpayers who may declare bankruptcy or leave Guam. In addition, we believe that the number of delinquent tax cases (1,415 taxpayers as of December 31, 1996) could be reduced if Revenue and Taxation aggressively pursued the collection of delinquent gross receipts taxes through the use of seizures and sales of property.

Finally, as noted previously, Revenue and Taxation was unable to locate 35 (27 percent) of the 129 delinquent taxpayer case files that we selected for review. Therefore, we believe that Revenue and Taxation should develop written procedures to ensure that taxpayer case files maintained by the Collection Branch are safeguarded and can be located when needed by the revenue officers.

## **Recommendations**

We recommend that the Governor of Guam require the Director, Department of Revenue and Taxation, to:

1. Instruct the Tax Enforcement Administrator to comply with established procedures for collecting delinquent gross receipts taxes, including the use of seizures and sales of taxpayer property.
2. Provide the necessary resources to ensure that the Collection Branch reduces its backlog of delinquent taxpayer cases and collects delinquent gross receipts taxes in a timely manner.

3. Develop and implement written procedures and establish a records management system to ensure that the Collection Branch controls and safeguards taxpayer case files.

### **Governor of Guam Response and Office of Inspector General Reply**

The June 22, 1998, response (Appendix 2) to the draft report from the Acting Governor of Guam concurred with all three recommendations and indicated that corrective actions would be taken. Based on the response, we consider Recommendation 1 resolved and implemented and request additional information for Recommendations 2 and 3 (see Appendix 3).

## **B. NONFILER IDENTIFICATION PROGRAM**

The Department of Revenue and Taxation did not use available information sources to identify potential nonfilers of gross receipts taxes. Guam Public Law 19-10, Section 19, authorized Revenue and Taxation to use various sources of information, such as the Guam Telephone Directory, the Guam Waterworks Authority's water connection records, and the Guam Housing and Urban Renewal Authority's and Guam Housing Corporation's listings of landlords, to identify potential nonfilers. However, Revenue and Taxation had not (1) developed a written plan, including specific goals and objectives, to serve as a basis for conducting an effective nonfiler identification program; (2) assigned sufficient personnel and a program coordinator to conduct a nonfiler identification program; and (3) ensured that all income tax return information was entered into Revenue and Taxation's automated income tax system to provide a method for comparing income reported on individual and/or corporate income tax returns with income shown on gross receipts tax returns. As a result, based on our limited testing of alternative sources of taxpayer information, we estimated that gross receipts taxes and related penalties and interest of at least \$972,486 may not have been paid by nonfilers during calendar years 1995 and 1996.

### **Identification of Nonfilers**

We tested several alternative sources of taxpayer information that Revenue and Taxation could use to identify potential nonfilers, including the Guam Telephone Directory, the Guam Housing and Urban Renewal Authority's listing of Section 8 (Federal Housing Assistance) Program landlords, the Guam Legislature's logbook of personal services contracts, and the military construction and service contract records at Andersen Air Force Base. From these sources, we selected 155 taxpayers to determine whether they had filed gross receipts tax returns during calendar years 1995 and 1996. In addition, for the taxpayers selected for review from the Guam Housing Authority's listing, the Legislature's contract logbook, and the Air Force Base's contract records, we compared the amount of taxpayer income shown in these records with the amount of income reported on gross receipts tax returns to determine whether all income had been reported by the taxpayers during calendar years 1995 and 1996. Based on our review of the information obtained for the 155 taxpayers, we determined that 108 taxpayers had filed gross receipts tax returns and had apparently reported all of their income. However, we found that the remaining 47 taxpayers<sup>1</sup> either had not filed gross receipts tax returns or had underreported their income, of which both actions resulted in the nonpayment of gross receipts taxes estimated at \$972,486, as shown in the following table:

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<sup>1</sup>On February 5, 1996, we provided a list of the 47 taxpayers to Revenue and Taxation's Director so that Revenue and Taxation could determine why the 47 taxpayers either had not filed gross receipts tax returns or had underreported income. If appropriate, actions should be taken to collect the amounts due.

Summary of Taxpayers Tested and Results for  
Calendar Years 1995 and 1996

| <u>Information Source</u> | <u>Taxpayers<br/>Reviewed</u> | <u>Income<br/>Reported by<br/>Taxpayers</u> | <u>Nonfilers<br/>and Under-<br/>reporters</u> | <u>Income Not<br/>Reported by<br/>Taxpayers</u> | <u>Estimated<br/>Gross Receipts<br/>Taxes Not Paid<br/>by Taxpayers*</u> |
|---------------------------|-------------------------------|---|---|---|--|
| Guam Telephone Directory  | 13                            | \$88,254,814                                | 2   | \$7,042,480                                     | \$384,944  |
| Guam Housing Authority    | 57                            | 2,728,397                                   | 16  | 241,451   | 13,175   |
| Guam Legislature          | 71                            | 2,543,275                                   | 21  | 114,322   | 6,211  |
| Andersen Air Force Base   | <u>14</u>                     | <u>241,734,775</u>                          | <u>8</u>                                      | <u>10,315,218</u>                               | <u>568,156</u>   |
| Totals                    | <u>155</u>                    | <u>\$335,261,261</u>                        | <u>47</u>                                     | <u>\$17,713,471</u>                             | <u>\$972,486</u>   |

\*Includes estimated interest and penalties computed as of December 31, 1996.

Both the Tax Enforcement Administrator and the Taxpayer Service Administrator agreed that Revenue and Taxation should develop and implement a program to identify nonfilers. However, these officials stated that insufficient numbers of staff had prevented Revenue and Taxation from having a nonfiler identification program. In addition, the Taxpayer Service Administrator cited the same reason for income tax information not being entered into the automated income tax system.

As noted in Finding A, a former Director of Revenue and Taxation had reassigned 12 revenue officers from the Collection Branch to cover shortages of staff in other Revenue and Taxation divisions. In addition, the Collection Branch had seven unfilled positions. In our opinion, Revenue and Taxation needs to return at least some of the reassigned revenue officers to the Collection Branch and fill the seven vacant positions to provide the Branch with a sufficient number of personnel to conduct nonfiler identification reviews and to ensure that necessary income tax information is entered into the automated income tax system (see Recommendation A.2). In addition, we believe that the deterrent effect created by maintaining an active nonfiler identification program will improve Revenue and Taxation's collection efforts through voluntary taxpayer compliance with the gross receipts tax law.

## Recommendations

We recommend that the Governor of Guam require the Director, Department of Revenue and Taxation, to:

1. Develop and implement a written plan, including specific goals and objectives, for conducting a nonfiler identification program.

2. Initiate a review to determine why the 47 taxpayers either had not filed gross receipts tax returns or had underreported income. If this review determines that additional taxes are due, actions should be taken to collect the amounts due.

### **Governor of Guam Response and Office of Inspector General Reply**

The June 22, 1998, response (Appendix 2) to the draft report from the Acting Governor of Guam concurred with the two recommendations and indicated that corrective actions would be taken. Based on the response, we consider Recommendation 1 resolved but not implemented. Accordingly, the recommendation will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation. Also based on the response, additional information is requested for Recommendation 2 (see Appendix 3).

## CLASSIFICATION OF MONETARY AMOUNTS

| <u>Finding Areas</u>                  | <u>Unrealized<br/>Revenues*</u> | <u>Potential<br/>Additional<br/>Revenues*</u> |
|---------------------------------------|---------------------------------|---|
| A. Collection of Gross Receipts Taxes | \$724,149                       | \$1,327,877                                   |
| B. Nonfiler Identification Programs   |                                 | 972,486                                       |
| Totals                                | <u>\$724,149</u>                | <u>\$2,300,363</u>                            |

\*Amounts represent local funds.



UFISINAN I MAGA'LAHI  
TERITORION GUAM

JUN 22 1998


Mr. Robert J. Williams  
Acting Inspector General  
Office of the Inspector General  
United States Department of the Interior  
Washington, D.C. 20240

Dear Mr. Williams:

Enclosed is the Department of Revenue and Taxation's response and the action plans in regard to the Inspector General's Audit Report on "Assessment and Collection of Gross Receipt Taxes" (Assignment No. N-IN-GUA-003-97).

Should you have any questions or comments, please write to me.

Sincerely,

  
MADELEINE Z. BORDALLO  
Acting Governor of Guam

Enclosures

**DEPARTMENT OF REVENUE AND TAXATION'S RESPONSE TO  
DOI INSPECTOR GENERAL AUDIT  
N-IN-GUA-003-97**

**BACKGROUND**

The Inspector General (IG) conducts periodic reviews of Government of Guam operations, more specifically the Department of Revenue and Taxation, as authorized under Section 1421d (48 U.S.C.-Organic Act of Guam).

The IG conducted an audit of the Department's effectiveness in the "Assessment and Collection of Gross Receipt Taxes" for Fiscal Years 1995, 1996 and 1997 (through December 31, 1996). The operational audit was conducted at the Department of Revenue and Taxation from January through September 1997.

**FINDINGS AND RECOMMENDATIONS**

**A. COLLECTION GROSS RECEIPT TAXES**

The audit objective was to determine whether the Department of Revenue and Taxation effectively assessed and collected the gross receipts taxes applicable under Guam laws and regulations.

During the course of the audit, the IG noted that the Department processed \$389 Million in GRT revenues for review period (FY 95, 96 and 97). The review highlighted the increase in Gross Receipts Tax receivables from \$6.7 Million at the end of Fiscal Year 1994 (9/30/94) to \$14.9 Million at the end of Fiscal Year 1996 (9/30/96). This represents an \$8.2 Million or a 122% increase over a two year period.

The dramatic increase was attributable to an aggressive audit program directed at industry type audits netting huge tax deficiencies. This enforcement mode was implemented to increase enforcement presence targeted at encouraging voluntary compliance.

In most instances the deficiencies are disputed yet put on the books as tax assessments to protect the government's priority interests.

Additionally, the \$14.9 Million receivables represents unpaid delinquent taxes covering the seven year period statute of limitations to include self assessed, disputed-litigated, bankruptcy and exam related GRT assessments.

The IG's general findings conclude that despite processing/generating \$389 Million in GRT revenues, the Department of Revenue and Taxation did not ensure that delinquent gross receipts taxes were collected or collected in a timely manner. As a result, during Fiscal Years 95, 96 and



97 the Government of Guam lost gross receipts tax revenues of at least \$724,149 and may be at risk of losing another \$1.3 Million of delinquent taxes if timely enforcement actions are not taken.

With the findings and recommendations analyzed, the Department of Revenue and Taxation shall implement the recommended courses of action.

The IG recommends the following be implemented to strengthen the collections operations:

1. Instruct the Tax Enforcement Administrator to comply with established procedures for collecting gross receipts taxes, including the use of seizures and sales of taxpayer property.

Response:

Attached please find a copy of a memo dated June 17, 1998, instructing the Tax Enforcement Administrator and Collection Branch personnel to follow established collection procedures and as warranted, utilize seizures and sales of property to collect delinquent taxes.

2. Provide the necessary resources to ensure that the Collection Branch reduces its backlog of delinquent taxpayer cases and collects delinquent gross receipts taxes in a timely manner.

Response:

The effectiveness of the Department of Revenue and Taxation's enforcement program is predicated on the resources allocated to the Tax Enforcement Program.

Despite an ever increasing taxpayer base and collateral demand for services, the budgetary resources allocated to the tax enforcement program has either remained level or been reduced consistent with the financial and economic condition of the Government of Guam. This condition has progressively worsen as the Departmental budget reflects an allocation lower than pre FY 95 budget authorizations (\$1.75 to 2.5 Million lower).

On paper (The FY 97 Budget), Collection Branch was authorized a staff of 38 employees (35 Revenue Officers, 2 Tax Auditors, and 1 Support Staff). As of the review period the IG confirmed that only 19 employees, or a 50% compliment, manned the collections branch function. The 50% understaffing was attributed to 7 vacancies and 12 Revenue Officers reassigned by the previous Director to cover shortages in other areas of operations.

To correct this, as of mid 1997 internal reassignments were affected to transfer most, if not all, Revenue Officers back to the tax area and hire 3 entry level Revenue Officers from the collections branch vacancies.

Additionally, the Department will continue to request funding for the vacancies and that the collections branch allocations be exempted from budget constraints (hiring freezes).

3. Develop and implement written procedures and establish a records management systems to ensure that the Collection Branch controls and safeguards taxpayer case files.

Response:

Attached please find a copy of a memorandum dated June 17, 1998 to the Administrator, Tax Enforcement Programs, directing him to develop and implement procedures for a records management systems within the Collection Branch.

## **B. NONFILER IDENTIFICATION PROGRAM**

The IG audit findings conclude that the Department did not use available information sources to identify non-filers which resulted in potential nonpayment loss of gross receipt taxes of at least \$972,486.

Revenue and Taxation had not (1) developed a written plan, including specific goals and objectives, to serve a basis for conducting an effective non-filer identification program; (2) assigned sufficient personnel and a program coordinator to conduct a non-filer program; and (3) ensured that all income tax return information was entered in Revenue and Taxation's automated system.

The Department conducts such non-filer review (as mandated by Guam Public Law 19-10) of gross receipt tax returns filed to ensure taxpayers whom are required to file do so prior to the renewal of the business licenses, the program is currently limited to only the Department's automated systems.

The IG recommends the following be implemented:

1. Develop and implement a written plan, including specific goals and objectives, for conducting a nonfiler identification program.

Response:

Attached please find a copy of a memo dated June 17, 1998 instructing the Tax Enforcement Administrator and Taxpayer Service Administrator to develop for implementation a Gross Receipt non-filer program.

2. Initiate a review to determine why the 47 taxpayers either had not filed gross receipt tax returns or had underreported income. If this review determines that additional taxes are due, action should be taken to collect the amounts due

**Response:**

The review of the 47 taxpayers is being conducted and the Tax Enforcement Administrator is monitoring the findings and actions. Attached is a copy of a memo dated June 17, 1998 to Tax Enforcement Administrator.

DEPARTMENT OF

# REVENUE AND TAXATION

GOVERNMENT OF GUAM

JOSEPH T. DUENAS, Director    CARL E. TORRES, Deputy Director

JUN 17 1998

## MEMORANDUM

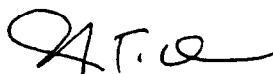
To: Administrator, Tax Enforcement Division

From: Director

Subject: IG Report-Collections Procedures

Effective immediately, you are hereby directed to adhere to the established procedures for collecting delinquent gross receipt taxes, including the use of seizures and sales of taxpayer property when warranted.

Please instruct all employees of the Collection Branch to adhere to the established procedure so as to affect timely collection of delinquent GRT assessments.



JOSEPH T. DUENAS

DEPARTMENT OF

CARL T.C. GUTIERREZ, Governor  
MADELEINE Z. BORDALLO, Lieutenant Governor

# REVENUE AND TAXATION

GOVERNMENT OF GUAM

JOSEPH T. DUENAS, Director CARL E. TORRES, Deputy Director

JUN 17 1998

## MEMORANDUM

To: Administrator, Tax Enforcement Division

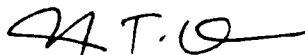
From: Director

Subject: Procedures for a Records Management System

You are hereby directed to develop procedures for a records management system for the Collections Branch.

Please coordinate with all affected operational areas to facilitate the implementation of said system so as to ensure that the collections Branch controls and safeguards taxpayer case files.

Refer to IG Report No. N-IN-GUA-003-97 for additional guidance on this matter.



JOSEPH T. DUENAS

CARL T.C. GUTIERREZ, Governor

MADELEINE Z. BORDALLO, Lieutenant Governor

DEPARTMENT OF

**REVENUE AND TAXATION**

GOVERNMENT OF GUAM

JOSEPH T. DUENAS, Director CARL E. TORRES, Deputy Director

JUN 17 1998

## MEMORANDUM

To: Administrator, Tax Enforcement Division  
Administrator, Taxpayer Service Division

From: Director

Subject: Non-Filer Program for Gross Receipt Taxes

You are hereby directed to develop for implementation a Gross Receipt non-filer program. This program should include goals and objectives.

A draft of this plan must be submitted to my office within sixty days. If you have any questions, please let me know.



JOSEPH T. DUENAS

CARL T.C. GUTIERREZ, Governor

MADELEINE Z. BORDALLO, Lieutenant Governor

DEPARTMENT OF

**REVENUE AND TAXATION**

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JOSEPH T. DUENAS, Director CARL E. TORRES, Deputy Director

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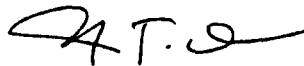
To: Administrator, Tax Enforcement Division

From: Director

Subject: IG Audit Recommendation  
DOI Audit N-IN-GUA-003-97

After reviewing results of the IG audit findings of "Assessment and Collections Gross Receipts Taxes", you are hereby instructed to provide me periodic status updates of the 47 taxpayers cited as either had not filed gross receipt tax returns or had under-reported income.

If you have any questions, please see me.



JOSEPH T. DUENAS

## STATUS OF AUDIT REPORT RECOMMENDATIONS

| Finding/Recommendation<br>Reference | Status   | Action Required  |
|-------------------------------------|--|--|
| A.1                                 | Implemented.                                       | No further action is required.   |
| A.2                                 | Management concurs; additional information needed. | Provide the number of revenue officers, tax auditors, and support staff currently assigned to the Collection Branch and a target date and title of the official responsible for requesting funding for the vacancies.  |
| A.3                                 | Management concurs; additional information needed. | Provide a target date for developing and implementing the written procedures and establishing a records management system for controlling and safeguarding taxpayer case files. When completed, a copy of the written procedures should be provided to our office. |
| B.1                                 | Resolved; not implemented.                         | The recommendation will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation. However, when completed, a copy of the procedures for the nonfiler identification program should be provided to our office.       |
| B.2                                 | Management concurs; additional information needed. | Provide a target date for completing the review of the 47 taxpayers. When completed, a report on the results of the review should be provided to our office.   |



**ILLEGAL OR WASTEFUL ACTIVITIES  
SHOULD BE REPORTED TO  
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